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Performing Internal Audits of Intercollegiate Athletics

A Self-Monitoring Tool

By Joyce C. Kilpatrick

Introduction

Intercollegiate athletics programs have grown until they are big business. For example, each university among the Final Four in the 1985 NCAA basketball tournament received \$751,899. Even first-round losers received more than the \$133,381 that UCLA received for winning the 1975 national championship. Millions can be earned by schools participating in postseason football games; schools competing in games that are played in the Cotton Bowl, Orange Bowl, Rose Bowl, and Sugar Bowl receive from \$2 million to \$6 million [Lowitt and Bock, 1985, p. 4B].

As intercollegiate athletic revenues grew, more schools entered the competition. When competition increased, abuses, problems, and violations of rules and regulations also increased. Publicity relative to these infractions became front-page headlines.

Higher education and NCAA administrators responded positively to the criticisms and publicity. Recent NCAA reform rules require more self-regulation. Properly administering athletic activities has always required extensive administrative efforts at various management levels within educational institutions. Now, additional effort must be expended and an efficient and effective self-monitoring system is a necessity.

A valuable tool for management to use in the institution's self-monitoring process is the internal audit, which various institutions have be-

gun to require for intercollegiate athletics programs. For example, in 1983, Tennessee's State Board of Regents System of Colleges and Universities, which includes six regional universities, initiated an internal audit system to examine compliance with NCAA's academic and financial guidelines.

Background of NCAA Reform Legislation

The NCAA reform legislation evolved from a series of events that occurred over a period of time. A chronological listing of actions taken to enhance the integrity of intercollegiate athletics programs includes:

- Proposition 48 approved by NCAA
- Presidents' Commission established by NCAA
- Chief executive officers of NCAA member institutions surveyed by Presidents' Commission
- New rules approved by NCAA

Proposition 48 Approved. Institutional administrators demonstrated their willingness to assume increased responsibility for student-athletes' academic pursuits by approving Proposition 48 at the Nashville, Tennessee, convention. Proposition 48 requires 1986 freshmen student-athletes to meet more rigorous academic standards.

Presidents' Commission Established. In 1983, the American Council of Education (ACE) sponsored a proposal to give college and university presidents control over most of the association's activities and poli-

cies, particularly those involving academic standards. The purpose of the proposal was to eliminate abuses in areas of intercollegiate athletics, including recruiting and scholastic eligibility rules.

In January 1984, the NCAA defeated the ACE's proposal. As a compromise, the NCAA Council endorsed establishing a 44-member Presidents' Commission with advisory, rather than rule-making, authority. Establishing this commission, which would provide a means for increased presidential involvement in intercollegiate athletics, was a momentous event. This was the first time in the NCAA's history that college presidents were given a formal role in the association [NACUBO, February 1984, p. 4].

Chief Executive Officers Surveyed. The first major task performed by the Commission was to focus attention on violations governing recruiting, fiscal integrity, academic standards, amateur status, and ethics. Early in 1985, the Presidents' Commission surveyed presidents and chancellors of NCAA member institutions regarding integrity and economic issues in athletics. John W. Ryan, Chairman of the Presidents' Commission, said that the poll was "the most comprehensive and definitive national survey of presidential views regarding athletics ever taken" [NACUBO, May 1985, p. 13].

About 60 percent of those surveyed responded. Survey responses revealed that chief executive officers were very concerned about violations occurring in academic, fiscal, and administrative areas of intercollegiate athletics. Ninety-nine percent of the respondents were concerned about integrity problems, and 80 percent expressed concern about income-generating demands of Division I sports.

Although a proposal requiring an-

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nual internal audits of athletics was easily defeated at the NCAA Convention in January 1985, 87 percent of survey respondents thought that mandatory annual audits of athletic budgets should be conducted by either internal or independent auditors [NACUBO, May 1985, p. 13]. This was a clear indication that the tide had turned. Chief executive officers wanted to tighten controls on intercollegiate athletics programs, and they were willing to institute measures to monitor those controls.

New Rules Approved. In June 1985, a special NCAA Convention was called, and the Presidents' Commission sponsored eight legislative proposals, developed after compiling survey findings. Approximately 440 delegates in attendance voted almost unanimously in favor of the eight proposals; four other proposals were also approved.

The new rules impose stiffer penalties for cheating in recruiting and set up a system of determining the seriousness of rule violations. Penalties placed upon coaches will follow them to other universities, and athletes will be held responsible for rule violations. In addition, the new rules limit the number of athletic contests per year and require athletes and coaches to sign affidavits concerning financial aid [NACUBO, August 1985, pp. 8-9].

Two of the approved proposals are related to institutional control and responsibility for an intercollegiate athletics department's financial affairs. The first, Constitution 3-2-(b), requires that a member institution's annual intercollegiate athletics budget (1) be controlled by the institution, (2) be subjected to normal budgeting procedures, and (3) be approved by the institution's chief executive officer or designee.

The second proposal amended NCAA Constitution 3-2 by adding paragraph (c) which requires that all expenditures for, or in behalf of, an institution's athletics program, including those by outside entities, to be audited annually by a qualified auditor who is not a staff member of the institution [NCAA, 1986b, p. 17].

Article 4, Section 2, paragraph (b) of the NCAA Constitution, Institutional Self-Study of Athletics, was also approved. This section requires each member institution, as a condition and obligation of NCAA mem-

bership, to conduct a comprehensive self-study of its intercollegiate athletics program at least once every five years [NCAA, 1986b, p. 31].

Ted Tow, NCAA staff liaison to the Presidents' Commission, was reported in **Business Officer** as saying: "The reform measures undertaken by the Presidents' Commission are meant to promote institutional self-control over athletic programs rather than active monitoring by the NCAA" [NACUBO, August 1985, p. 9].

Internal Auditors' Role

An internal auditing department, which functions by examining and evaluating the adequacy and effectiveness of other controls, is an integral part of an institution's system of management control. A fundamental objective of internal auditing is to assist administrators in the effective discharge of their responsibilities by providing appraisals and recommendations concerning their activities.

The department's organizational status within the institution enables its staff to function freely (with full access to personnel, records, and physical property) in carrying out responsibilities. The independent nature of the internal auditing function gives assurance that impartial and unbiased opinions can be rendered on information obtained.

Chief executive officers wanted to tighten controls on intercollegiate athletics programs, and they were willing to institute measures to monitor those controls.

Internal auditors are technically trained to review policies, procedures, rules, and regulations and to test compliance. They also possess the expertise required to review the system of internal control and to determine if the controls are operating as intended. Thus, by requiring internal auditors to perform audits of intercollegiate athletics, chief executive officers can efficiently and effectively monitor overall management of athletics.

By performing internal audits of

athletics, institutions may also be able to reduce audit fees for required external audits. Guidelines published by the NCAA for conducting the financial audit state:

Work performed by internal auditors . . . would not meet the requirements of this legislation. Independent auditors may, however, use work performed by internal auditors to assist them in performing an audit of the financial activities of an intercollegiate athletics department. The independent auditor should follow the guidance in the AICPA's **Statement on Auditing Standards No. 9** entitled, "The Effects of an Internal Audit Function on the Scope of an Independent Auditor's Examination" [NCAA, 1986c, p. 8].

Statement on Auditing Standards No. 9 (SAS 9) takes the position that the work of internal auditors cannot be substituted for the work of independent auditors, but that independent auditors should assess the existence and quality of the internal audit function in evaluating the internal control system. **SAS 9** also states that independent auditors should review objectivity and competence of the internal audit staff and evaluate work performed so that they will have a basis for determining the extent to which they may limit their audit procedures in reliance upon the internal auditor's contribution to internal control.

Auditing Academic and Financial Aid Eligibility of Student-Athletes

An "Operational and Compliance Internal Audit of Academic and Financial Aid Eligibility of Student-Athletes" should be performed in accordance with the **Standards for the Professional Practice of Internal Auditing (SPPIA)**. **Standard 400**, "Performance of Audit Work," states: "AUDIT WORK SHOULD INCLUDE PLANNING THE AUDIT, EXAMINING AND EVALUATING INFORMATION, COMMUNICATING RESULTS, AND FOLLOWING UP" [SPPIA 400].

Planning the Audit. The early-planning phase of the audit includes the following:

- Obtaining relevant knowledge
- Establishing audit objectives
- Arranging a preliminary conference

TABLE 1**Specific Objectives of An Internal Audit****Academic and Financial Aid Eligibility of Student-Athletes**

- To determine if number of athletic awards by sport complied with total awards allowed by NCAA and conference regulations.
- To determine if student-athletes:
 - 1) Were admitted in accordance with the institution's published entrance requirements
 - 2) Had met institutional retention standards
 - 3) Were in compliance with institutional and NCAA satisfactory progress requirements
 - 4) Were notified of the institution's intent to renew scholarship or grant-in-aid awards in accordance with NCAA regulations
- To determine if student-athletes' files included documents to substantiate compliance
- To determine if hours earned, grade-point average, and other data reported on eligibility reports were accurate and agreed with official transcripts and other supporting documents
- To determine if student-athletes received written notification of financial aid as required by the NCAA
- To determine if scholarship student-athletes who received Pell Grants were limited to amount of cash they might receive for miscellaneous expenses in accordance with NCAA regulations
- To determine if student-athlete(s) identified as violating institutional, NCAA, or conference rule(s) were allowed to participate in competition
- To determine if prior audit recommendations were implemented
- To make recommendations to management to correct deficiencies or to improve operations

- Reviewing internal controls
- Preparing audit program

Obtaining relevant knowledge. Standard 200, "Professional Proficiency," states that "INTERNAL AUDITS SHOULD BE PERFORMED WITH PROFICIENCY AND DUE PROFESSIONAL CARE" [SPPIA 200]. To meet the proficiency requirement, internal auditors must be familiar with, not only institutional policies and procedures, but also NCAA and conference (if applicable) rules and regulations.

Establishing audit objectives. The overall objective is to ascertain that student-athletes certified as eligible to participate in intercollegiate athletics have, in fact, met eligibility criteria of the NCAA and conference (if applicable). Specific objectives are given in Table 1.

Arranging Preliminary Conference. A preliminary informational meeting should be arranged between the director of internal auditing and certain key personnel. Representatives from various areas involved in the audit should be present. These may include the president,

athletic director, business officer, admissions and records officer, student aid director, and faculty representative for athletics. The meeting should set the tone for the audit, emphasizing cooperation. The director of internal auditing should be open and candid about audit objectives and should stress that management will be informed promptly of deficiencies.

Reviewing Internal Controls. SPPIA 300 states: "THE SCOPE OF THE INTERNAL AUDIT SHOULD ENCOMPASS THE EXAMINATION AND EVALUATION OF THE ADEQUACY AND EFFECTIVENESS OF THE ORGANIZATION'S SYSTEM OF INTERNAL CONTROL AND THE QUALITY OF PERFORMANCE IN CARRYING OUT ASSIGNED RESPONSIBILITIES" [SPPIA 300]. Thus, internal auditors should appraise the adequacy of the system of internal control established to ensure compliance with institution, NCAA, and conference plans, policies, procedures, regulations, and rules. The extent to which established goals and objectives are being met should

also be determined.

Information relating to internal controls for intercollegiate athletics can be obtained by reviewing the **Guide to Institutional Self-Study to Enhance Integrity in Intercollegiate Athletics (ISSG)**. The document, which was developed to help NCAA member institutions meet the self-study requirements of Constitution 4-2-(b), is similar to an internal control questionnaire and includes guidance designed to:

- (1) "sensitize" top administrators of NCAA member institutions to major types of problems that commonly occur in intercollegiate athletics programs;
- (2) "identify" specific areas in their own athletics programs that may represent potential problems; and
- (3) "guide" actions that might prevent or minimize the severity of those problems [NCAA, 1986d].

The first self-study may not have been completed by the institution. However, a review of the guidelines will provide (1) background information relative to controls which the NCAA deems important, and (2) insight into potential problems in the following areas:

- Institutional purpose and athletics philosophy
- Authority of the chief executive officer in personnel and financial affairs
- Athletics program organization and administration
- Athletics program finances
- Employment of athletics program personnel
- Sports program
- Recruiting, admissions, and eligibility
- Services for student-athletes
- Student-athlete profiles [NCAA ISSG, 1986a]

Two of the approved proposals are related to institutional control and responsibility for an intercollegiate athletics department's financial affairs.

An effective system of internal control for reporting and monitoring academic and financial aid eligibility of student-athletes should include the components listed in Table 2.

Preparing audit program. As strengths and weaknesses in the system of internal control and other special considerations are encountered, any "tentative" audit program will require modification. However, to provide assurance that essential verification steps are performed, the audit program should include detailed audit instructions to accomplish each audit objective. Essential steps for performing the eligibility audit of student-athletes are given in Table 3.

Examining and Evaluating Information. In determining the extent of reliance on the work of internal auditors, independent auditors must re-

view the competence of the audit staff and evaluate work performed. Internal auditors should strive to increase the extent to which independent auditors may rely on their work. This may be accomplished by examining and evaluating information and by preparing working papers in accordance with internal auditing standards. **Professional Standard 420** states:

Internal auditors should collect, analyze, interpret, and document information to support audit results . . .

- .2 Information should be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations . . .
- .5 Working papers that document the audit should be prepared by the auditor . . .

These papers should record the information obtained and the analyses made and should support the bases for the findings and recommendations reported [SPPIA 420].

Thus, by requiring internal auditors to perform audits of intercollegiate athletics, chief executive officers can efficiently and effectively monitor overall management of athletics.

Communicating Results. The atmosphere throughout the audit process should be a positive, constructive one of gathering evidence to substantiate the integrity of intercollegiate athletics. Written or oral interim reports should be transmitted formally or informally to appropriate management. These reports provide opportunities to:

- Encourage open communication
- Promptly inform responsible managers of deficiencies
- Thoroughly discuss findings and support for them
- Resolve questions or interpretations as to facts
- Enable management to initiate corrective action efficiently and immediately

A signed, written report should be prepared when the audit is completed. Deficiency findings should be clearly and fully communicated, and recommendations for corrective actions and potential improvements should be made. Prominent space should be given to management's completed, started, and planned corrective actions.

Follow Up. Internal auditors have an inherent responsibility for following up to ascertain that corrective action was taken. **Professional Standard 440.1** states: "Internal auditing should determine that corrective action was taken and is achieving the desired results, or that management or the board has assumed the risk of not taking corrective action on reported findings" [SPPIA 440.1].

TABLE 2

**Components of the System of Internal Control
Academic and Financial Aid Eligibility of Student-Athletes**

- Written policies and procedures
- Competent personnel with clear lines of responsibility and authority
- Procedures to ensure that staff responsible for reporting and monitoring eligibility for participation and financial aid understand institutional, NCAA, and conference rules
- Controls sufficient to ensure:
 - 1) Identification of all student-athletes
 - 2) Number of athletic awards per sport in compliance with NCAA and conference regulations
 - 3) Certification before participation that student-athletes had met all admission, retention, and satisfactory progress requirements
 - 4) Immediate identification of student-athletes who drop below required credit load for term of competition
 - 5) Notification to student-athletes, in accordance with NCAA regulations, of intent to renew scholarship or grant-in-aid awards
 - 6) Adequate documentation of student-athletes' files
 - 7) Accuracy of information on eligibility reports before submission to university, NCAA, or conference officials
 - 8) Written notification to student-athletes of financial aid for term of award
 - 9) Determination of total financial aid amount for each student-athlete
 - 10) Cash amounts received from Pell Grants do not exceed NCAA limits
 - 11) Student-athlete(s) identified as violating institutional, NCAA, and/or conference regulation(s) do not compete
- Careful and continuous internal verifications performed by individuals independent of those responsible for original data preparation

TABLE 3

Audit Program

Academic and Financial Aid Eligibility of Student-Athletes

- Review policies, procedures, rules, and regulations
- Interview management and staff of Accounting Office, Athletic Office, Admissions and Records Office, Financial Aid Office, and other appropriate staff to determine personnel competency and accessibility to and understanding of procedures and regulations in areas of responsibilities and authorities
- Determine sample size; a 100 percent sample is beneficial for the first audit
- Obtain copies of athletic eligibility reports for all sports for the audit period; perform the following:
 - 1) Verify that all student-athletes have been identified by comparing names on reports to financial aid awarded per athletic records
 - 2) Compare the number of athletic awards per sport to the number allowed per NCAA and/or conference regulations
- For all student-athletes (or selected sample) on the reports:
 - 1) Review admission records to determine that:
 - a) Admission was in accordance with the institution's published entrance requirements
 - b) High school transcripts documenting grade-point averages of at least 2.0 on a 4.0 scale are in files of entering freshmen
 - c) Sufficient documentation is in transfer-student files
 - 2) Compare credit hours earned on official transcripts to credit hours:
 - a) Reported on eligibility reports
 - b) Required to meet minimum retention standards
 - c) Required to meet satisfactory progress requirements
 - d) Required for term of competition
 - 3) Compare courses listed on transcripts to curriculum and other institutional requirements
 - 4) Examine documentation to determine that:
 - a) Renewals of scholarship or grant-in-aid awards are made on or before July 1
 - b) Student-athletes received written statements of financial aid awards for the academic year and summer school as required by NCAA
 - c) Combined total of athletic scholarship, Pell Grant, and other countable aid awarded did not exceed amount allowable under NCAA constitution
- For student-athlete(s) identified as violating institutional, NCAA, and/or conference rule(s), indicate the number of regular and postseason contests and dates of participation during period of violation

Conclusion

NCAA reform legislation, adopted in June 1985, requires increased self-regulation of intercollegiate athletics by institutions. A more efficient and effective self-monitoring system can be obtained by requiring internal auditors to perform annual internal audits of athletic activities. The audits will assist institutional administrators in their efforts to improve the integrity of intercollegiate

athletics by providing impartial and unbiased appraisals of information examined. □

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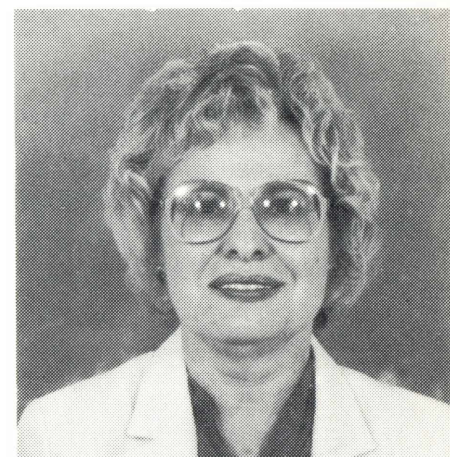
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